

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 AGR-20 L-03 H-03 TAR-02 PA-04 PRS-01

USIA-15 DRC-01 /187 W

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R 132048Z FEB 74

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 6314

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

C O N F I D E N T I A L TEGUCIGALPA 0644

GUATEMALA FOR ROCAP

E.O. 11652: GDS

TAGS: EIND, EAGR, HO, US

SUBJ: LUMBER DEVELOPMENTS; CONVERSATION WITH REYES

REF: TEGUCIGALPA 609

SUMMARY: ECOM OFFICERS HAD EXTENDED DISCUSSION WITH REYES, AND RAISED PROBLEMS U.S. COMPANIES CITED REFTEL. THERE IS PROGRESS TOWARD SOLUTION. STATUS OF TWO ADDITIONAL COMPANIES, HAWTHORNE AND SICRE. ORGANIZATIONAL AND SUBSTANTIVE ADVANCES APPARENT IN COHDEFOR. EMBASSY RECOMMENDS DEVELOPMENTS BE COMMUNICATED TO PARENT U.S. COMPANIES. END SUMMARY.

1. EXCHANGE WITH REYES BEGAN WITH DISCUSSION FINANCIAL PROBLEMS FOR EXPORTERS RESULTANT FROM 20 PERCENT
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WITHHOLDING OF EXPORT BILLINGS BY COHDEFOR. REYES

RESPONDED THAT AS SOON AS COMPANIES PRESENTED COST STATISTICS THEY WOULD RECEIVE BALANCES OF 20 PERCENT DUE THEM. HE STATED HE WOULD EXAMINE THE POSSIBILITY OF CHANGING THE WITHHOLDING ON THE BASIS OF THE FIRST EXPERIENCES. THEREFORE, PERCENTAGE WITHHOLDING MAY WELL BE DROPPED TO LOWER NUMBER IN IMMEDIATE FUTURE.

2. SECOND FINANCE PROBLEM, LACK OF FINANCING FOR SAW MILLS ALREADY SUBJECT OF STUDY BY COHDEFOR. IT HAS PROVIDED LIST OF SAW MILLS TO PRIVATE BANKING SECTOR. ALONG WITH THIS, COHDEFOR ESTIMATES OF NECESSARY FINANCING WERE PROVIDED. IN SEPARATE DISCUSSION WITH A PRIVATE FINANCIAL AGENCY IT APPEARS THAT SOME PROGRESS IS BEING MADE THAT WILL PROVIDE SELECTED SAW MILLS WITH LINE OF CREDIT. HOWEVER, TIMING AND BREADTH OF CREDIT AVAILABILITY NOT AT ALL CLEAR. COHDEFOR ALSO ACTING AS PURCHASER FROM SAW MILLS (SEE DISCUSSION HAWTHORNE BELOW).

3. THIRD PROBLEM OF LABOR UNREST CAME AS SURPRISE TO REYES. NEITHER CORPORATIONS NOR LABOR UNIONS HAD EXPRESSED TO HIM THE APPARENT CONDITIONS REPORTED REFTEL. REYES, WHILE MAKING CLEAR HE IS NOT IN THE MINISTRY OF LABOR, NEVERTHELESS RECOGNIZED SERIOUS POTENTIAL TO LUMBER EXPORTS OF LABOR DIFFICULTIES. HE UNDERTOOK TO EXAMINE THE MATTER.

4. IN BRIEF CONVERSATION WITH AGEL GROSS OF HAWTHORNE HE INDICATED HAWTHORNE HAD CONTINUED TO BUY LUMBER FROM SAW MILLS TO THE AMOUNT OF \$600,000 ALTHOUGH IT COULD NOT FINANCE THE PURCHASE. IN DISCUSSION WITH REYES, GROSS REACHED AGREEMENT THAT COHDEFOR WOULD PAY FOR THE ENTIRE AMOUNT. IN MEANTIME, HAWTHORNE HAS SHIPPED MAJOR PORTION OF INVENTORY ON HAND AT TIME OF DECREE 103 THEREBY REDUCING ITS INVENTORY WHICH HAD BEEN FINANCED IN THE U.S. THROUGH BARCLAY'S BANK. THIS PROCESS WILL CONTINUE. HAWTHORNE NOW CONSIDERING CONTRACT WITH COHDEFOR TO OPERATE YARD AND EXPORT ON FEE BASIS. HAWTHORNE DEVELOPMENTS UNDERLINED FLEXIBILITY AND COOPERATIVENESS OF COHDEFOR.

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5. SICRE IS, ACCORDING TO REYES, IN DIRE FINANCIAL STRAITS. HE BELIEVES SICRE OVER-PAID FOR ORIGINAL RIGHTS AND "COST OF DOING BUSINESS." BRIEDE OF SICRE NOT IN COMMUNICATION WITH EMBASSY BUT HAS HAD CONTINUAL CONVERSATIONS WITH REYES. AT ONE POINT BRIEDE, ON ORAL AGREEENT, GAVE LUMBER READY TO EXPORT TO COHDEFOR FOR SALE, WHICH SALE COHDEFOR MADE IMMEDIATELY. ON FOLLOWING

DAY BRIEDE RENEGED, STATING HE HAD OBTAINED HIGHER PRICE. REYES BURNED BADLY BY THIS DEAL BUT AGREED TO MEET HIGHER PRICE CLAIMED BY BRIEDE. RESULT IS THAT BRIEDE HAS USED UP HIS GOOD WILL WITH REYES.

6. BECAUSE OF WEAK POSITION OF SICRE, EMBASSY CONSIDERS, AND SO ADVISED REYES, THAT ITS PROBLEMS NEED THE CLOSEST ATTENTION AT THE MOMENT. REYES AGREED AND STATED HE IS TREATING PROBLEMS OF SICRE WITH UTMOST CAUTION IN SENSE OF ITS POSITION AS LARGE U.S. INVESTOR. IN CIRCUMSTANCES LACK OF CONTACT BETWEEN BRIEDE AND EMBASSY DISCOMFORTING.

7. REYES EXPECTING PROPOSALS FROM ROBINSON AND DAVIS, COMPANIES AS PER ECOM OFFICER DISCUSSIONS REPORTED REFTEL.

8. EMBASSY RECOMMENDS PARENT COMPANIES BE ADVISED OF ABOVE BY DEPARTMENT.

9. COMMENT: PHYSICAL PLANT OF COHDEFOR IMPROVING WITH CHAIRS IN WAITING ROOM AND SOFA IN DIRECTOR'S OFFICE. REYES LESS HARRASSED AND OBVIOUSLY DISPLAYING GREAT ADMINISTRATIVE FLEXIBILITY.
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